

California's Budget Crisis



Daniel J.B. Mitchell

May 28, 2009

LA Chamber of Commerce

California's Budget Crisis

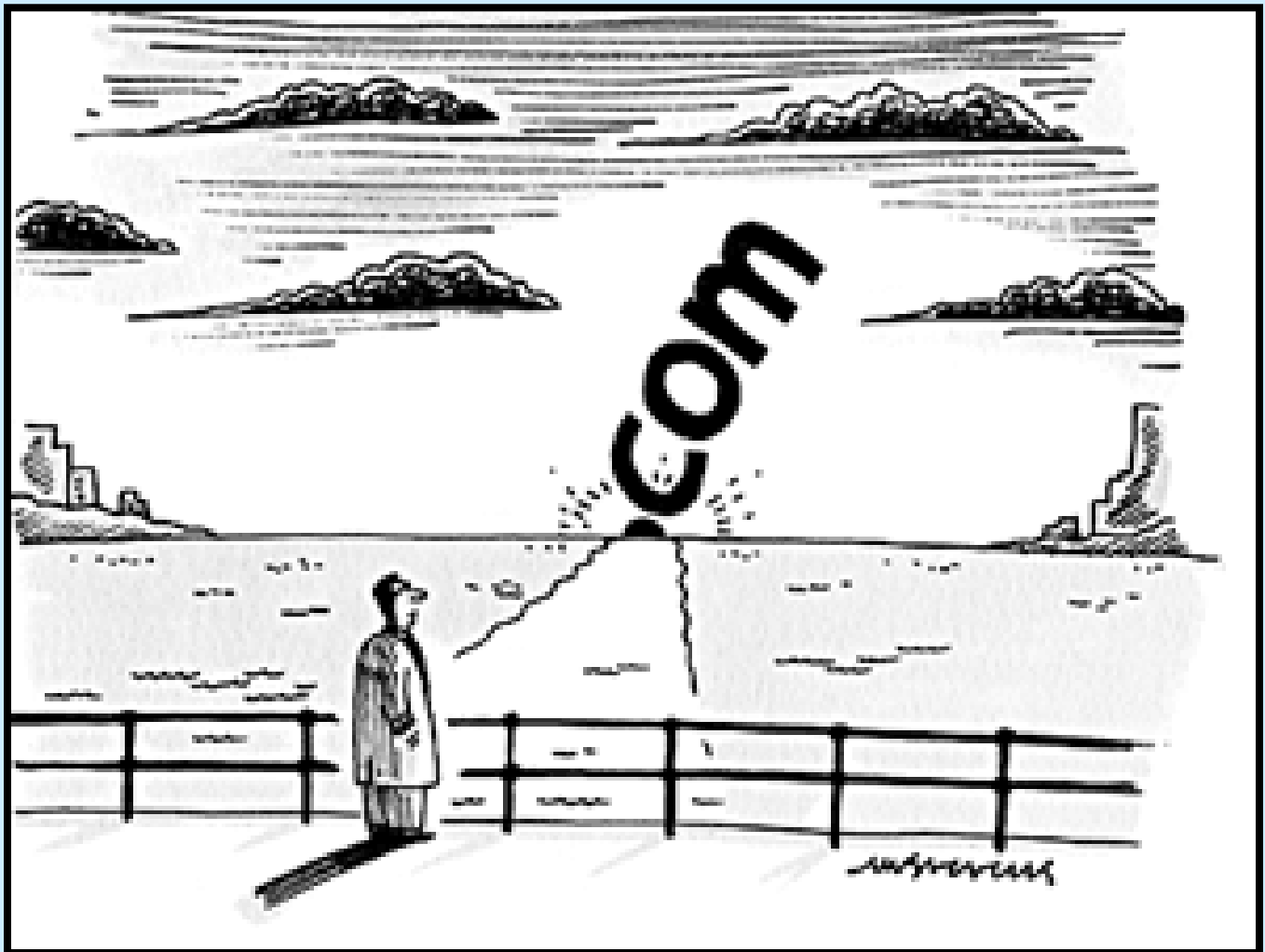


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Or did we know?

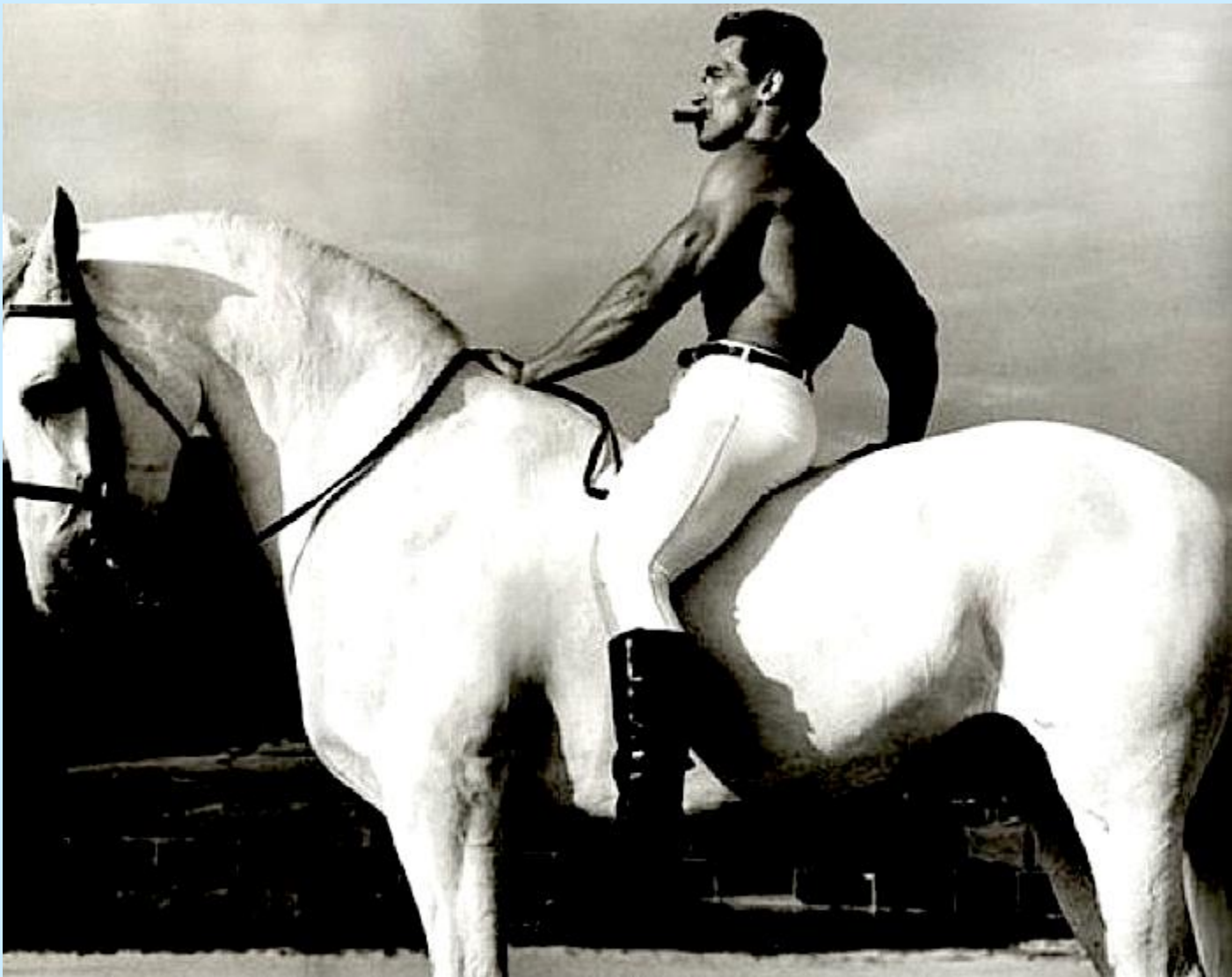


Or did we know?



supposed to be
Repetition is a teacher





The Man on the White Horse Syndrome?



The Man on the White Horse Syndrome?

FORTUNE

DISPLAY UNTIL APRIL 6, 2009

CAN MEG WHITMAN SAVE CALIFORNIA?

THE FORMER CEO
OF EBAY GEARS UP TO
RUN FOR GOVERNOR
BY PATRICIA SELLERS
PAGE 64

INSIDE THE WORLD'S BIGGEST HEDGE FUND

BY BRIAN O'NEEFE
PAGE 71

MEL KARMAZIN FIGHTS TO RESCUE SIRIUS

BY JON BIRGER
PAGE 84

Meg Whitman
and Brandy,
Half Moon Bay, Calif.
March 7, 2009

FORTUNE.COM

Woman on a Non-White Horse?



*Is the current budget crisis
an unpleasant surprise?*



Two scenarios



**Did the budget problem
just creep up when no
one was looking?**



Bird Scenario



**Or did we really know
what was happening?**



***Casablanca
Scenario***



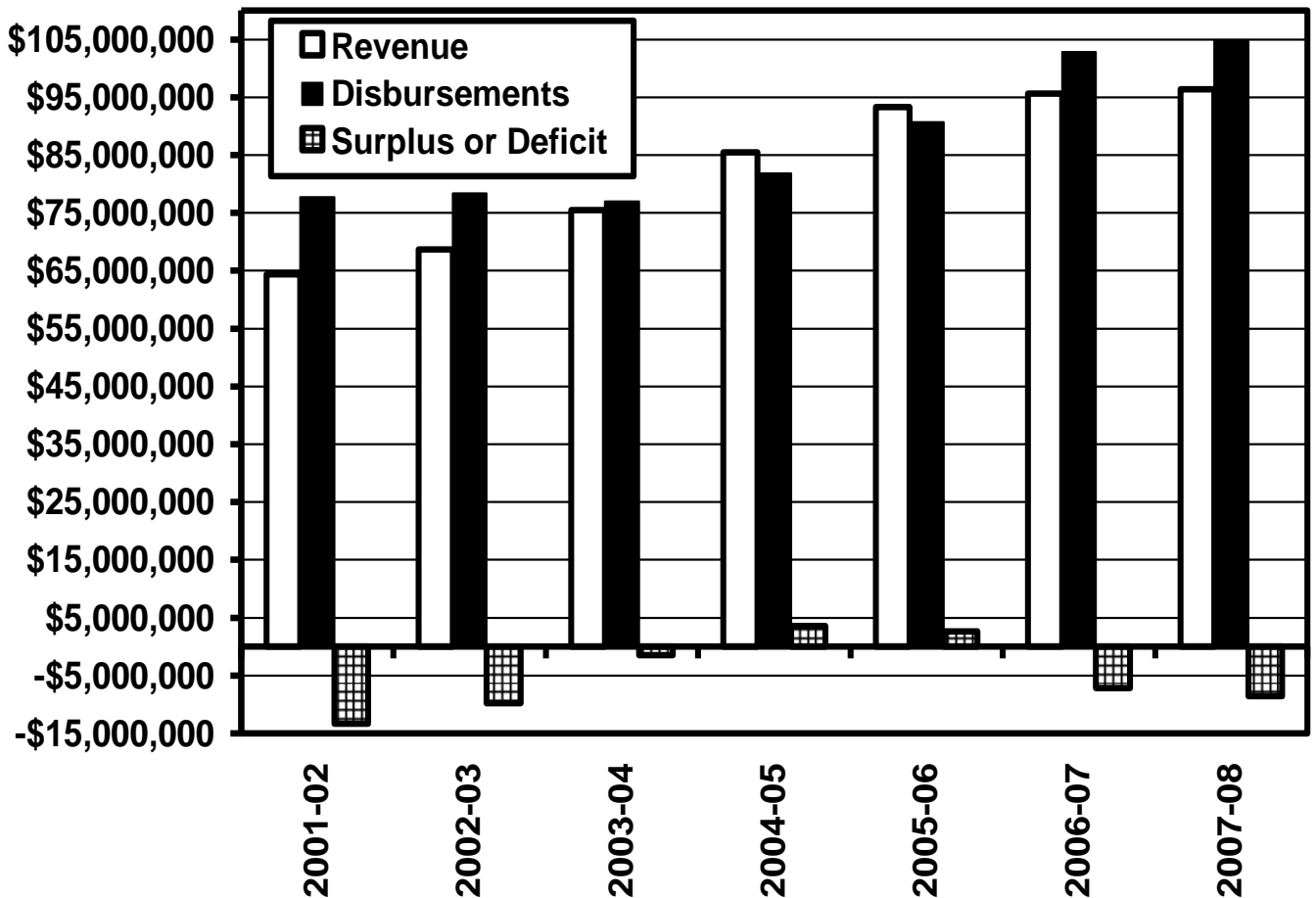
Or did we really know what was happening?



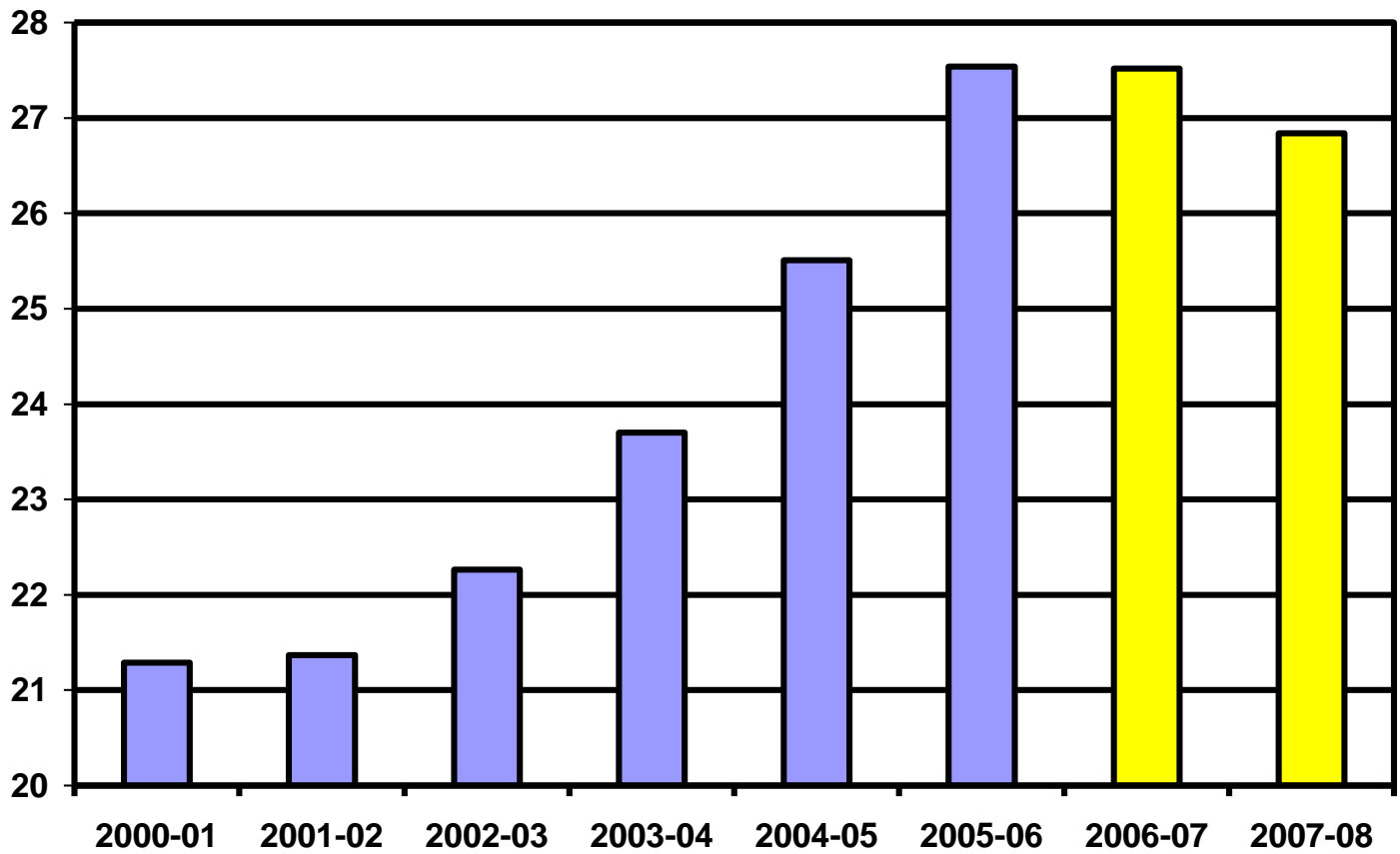
Looking Backwards Before the 2008-09 Crisis



Adjusted Cash Statement (\$000)



California Sales Tax: \$Billions



Brant Ward / The Chronicle



March 26, 2007



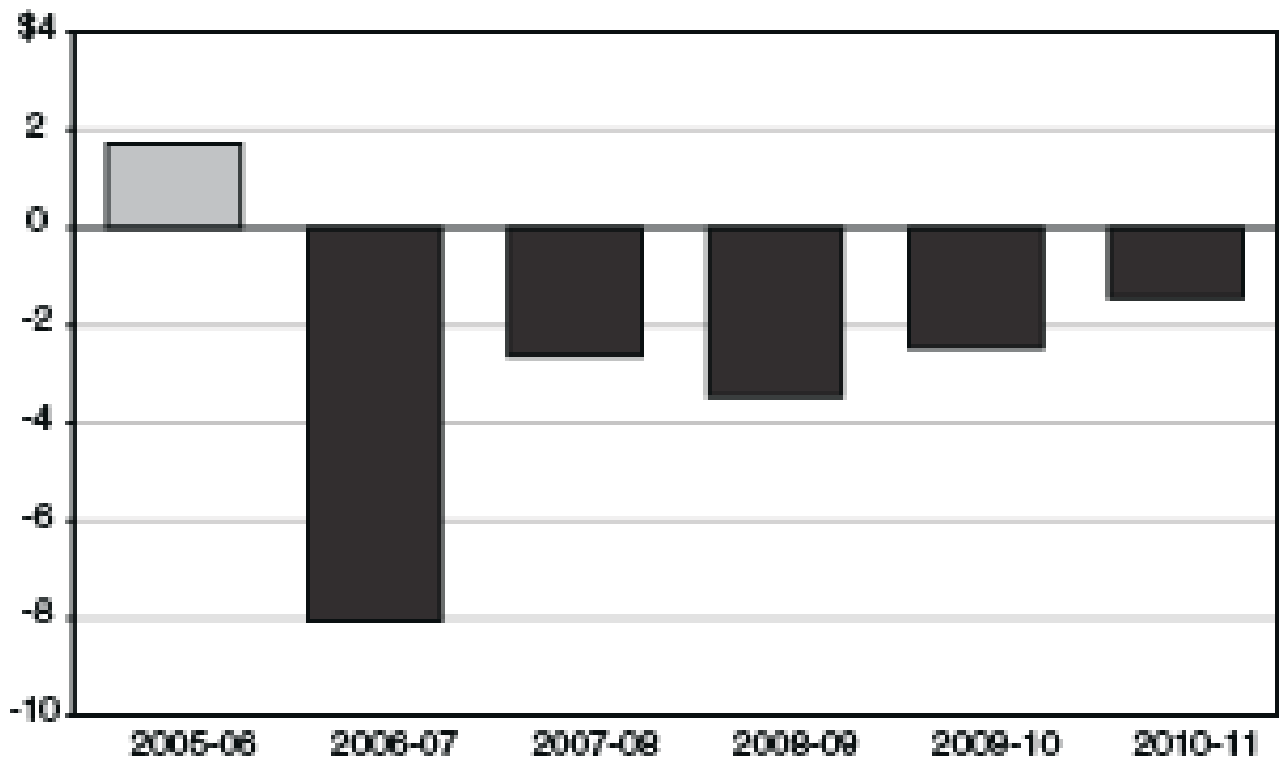
LAO Projections as of mid-Feb. 2007



Deficits

Significant Operating Shortfalls^a Would Remain

General Fund (In Billions)



^aAnnual revenues minus expenditures. Legislative Analyst's Office estimate of Governor's revenue and expenditure policies.

**When you are at the
peak, you can't fall up**



L.A. UNLEASHED

ALL THINGS ANIMAL IN SOUTHERN CALIFORNIA AND BEYOND

Stone-throwing Santino the chimp shows apes can carry out plans

7:35 PM, March 9, 2009



A chimpanzee named Santino has shown researchers that the great apes can plan ahead and execute carefully plotted maneuvers. Santino, the alpha male chimp at Sweden's Furuvik Zoo, planned rock-throwing attacks against zoo visitors, which shocked zoo staff and fascinated scientists.



THE CALIFORNIA VOTER





State Budget 101





State Budget 101

Transparency

- On the web?
- Promote understanding?





State Budget 101

Transparency

- On the web? (Grade A)
 - Promote understanding?
- Depends on definitions**

California Home Department of Finance Governor's Web Site Department Index Site Map Help Thursday, October 23, 2008

Welcome to California's

GOVERNOR'S BUDGET 2008-09

Enacted Budget Summary

Home

Enacted Budget Summary

Summary Charts
Revenue Estimates
Major Program Areas

Enacted Budget Detail

K thru 12 Education
Higher Education
Health and Human Services
Corrections and Rehabilitation
Business, Transportation & Housing Resources
Environmental Protection
State and Consumer Services
Labor and Workforce Development
General Government
Legislative, Judicial, and Executive

Budget References

eBudget Search



We want to know what you think!
Please send an e-mail with questions, comments, and/or concerns regarding this website to:
ebudgetwebmaster@dof.ca.gov

Enacted Budget Summary

The Enacted Budget Summary reflects the state spending plan passed by the Legislature and signed by the Governor. The Enacted Budget Summary provides [Summary Charts](#), [Revenue Estimates](#), Enacted Budget Summary information for selected [Major Program Areas](#), and veto messages.

[Budget Overview](#)
[Printable Budget Documents](#)

 To access the entire Enacted Budget Summary document (including veto messages) in a printable format (pdf), click here:
[Enacted Budget Summary - All Chapters](#) (pdf * - 1052K)

BUDGET OVERVIEW [Back to Top](#)
[Introduction](#)

The 2008 Budget Act resolves the \$24.3 billion budget deficit identified in the May Revision. It provides a modest reserve of \$1.7 billion this year, but projects a deficit of \$1.0 billion in 2009-10. While this budget does not resolve the state's persistent structural budget deficit, it includes a historic budget reform measure that puts California on the path to fiscal stability and avoids borrowing from local governments or transportation funds.

 Go to the [Enacted Budget Detail](#) web pages.

PRINTABLE BUDGET DOCUMENTS [Back to Top](#)
[Enacted Budget Summary - All Chapters](#) (pdf * - 1052K) -
Provides the entire Enacted Budget Summary in pdf format. Veto messages are included at the end of this printable document.

[Back to Top of Page](#)

 **Adobe Reader** pdf* This file requires the latest Adobe Acrobat reader plugin. If you do not have it - [click here](#) to download.

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State Budget 101

Transparency

Promote understanding? Depends on definitions

- Cash Statement Definitions from Controller Especially with Regard to “Borrowable Resources”
- Budget Definitions from Dept. of Finance and Legislative Analyst’s Office

California
Home
Enacted
Summary
Revenue
Major Projects
Enacted
K thru 12
Higher Education
Health and Human Services
Corrections
Business and Economic Development
Resources
Environment and Natural Resources
State and Local Government
Labor and Industrial Relations
General
Legislative
Budget

eBudget Search



We want to know what you think!
Please send an e-mail with questions,
comments, and/or concerns regarding
this website to:

ebudgetwebmaster@dof.ca.gov

BUDGET OVERVIEW [Back to Top](#)

[Introduction](#)

The 2008 Budget Act resolves the \$24.3 billion budget deficit identified in the May Revision. It provides a modest reserve of \$1.7 billion this year, but projects a deficit of \$1.0 billion in 2009-10. While this budget does not resolve the state's persistent structural budget deficit, it includes a historic budget reform measure that puts California on the path to fiscal stability and avoids borrowing from local governments or transportation funds.



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pdf* This file requires the latest Adobe Acrobat reader plugin. If you do not have it - [click here](#) to download.

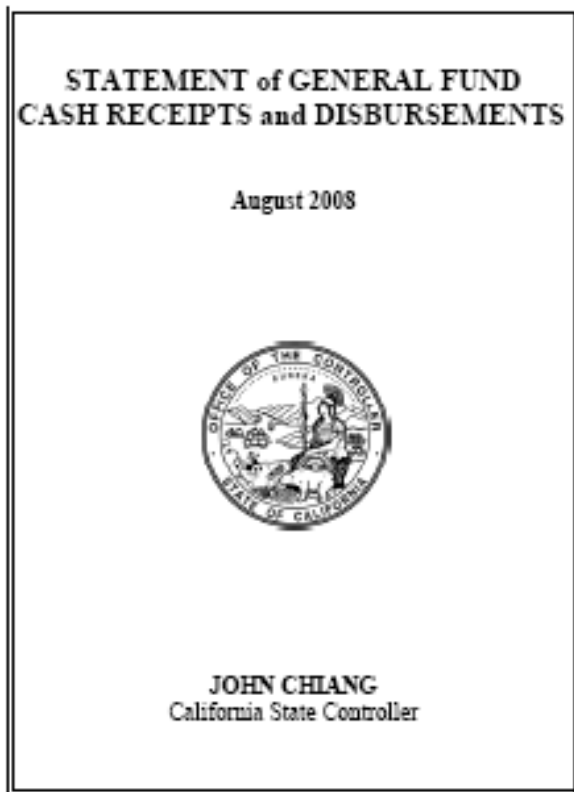
Lots of Other Funds Besides the General Fund:

Examples

- **Film California First Fund**
- **Bicycle Transportation Account**
- **Abandoned Watercraft Abatement Account**
- **Bureau of Thermal Insulation and Home Furnishings Fund**
- **California Collegiate License Plate Fund**



Borrowable Resources



Footnote (g) Additional funds of \$492 million were identified as borrowable and are included in the actual Available Borrowable Resources.

<http://www.sco.ca.gov/ard/cash/0809/aug.pdf>





August 2007



What is a “deficit”?



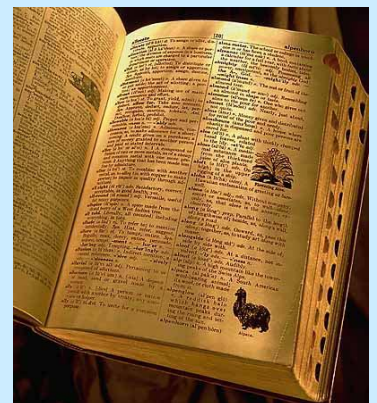
*Does it just mean no money left
to spend?*



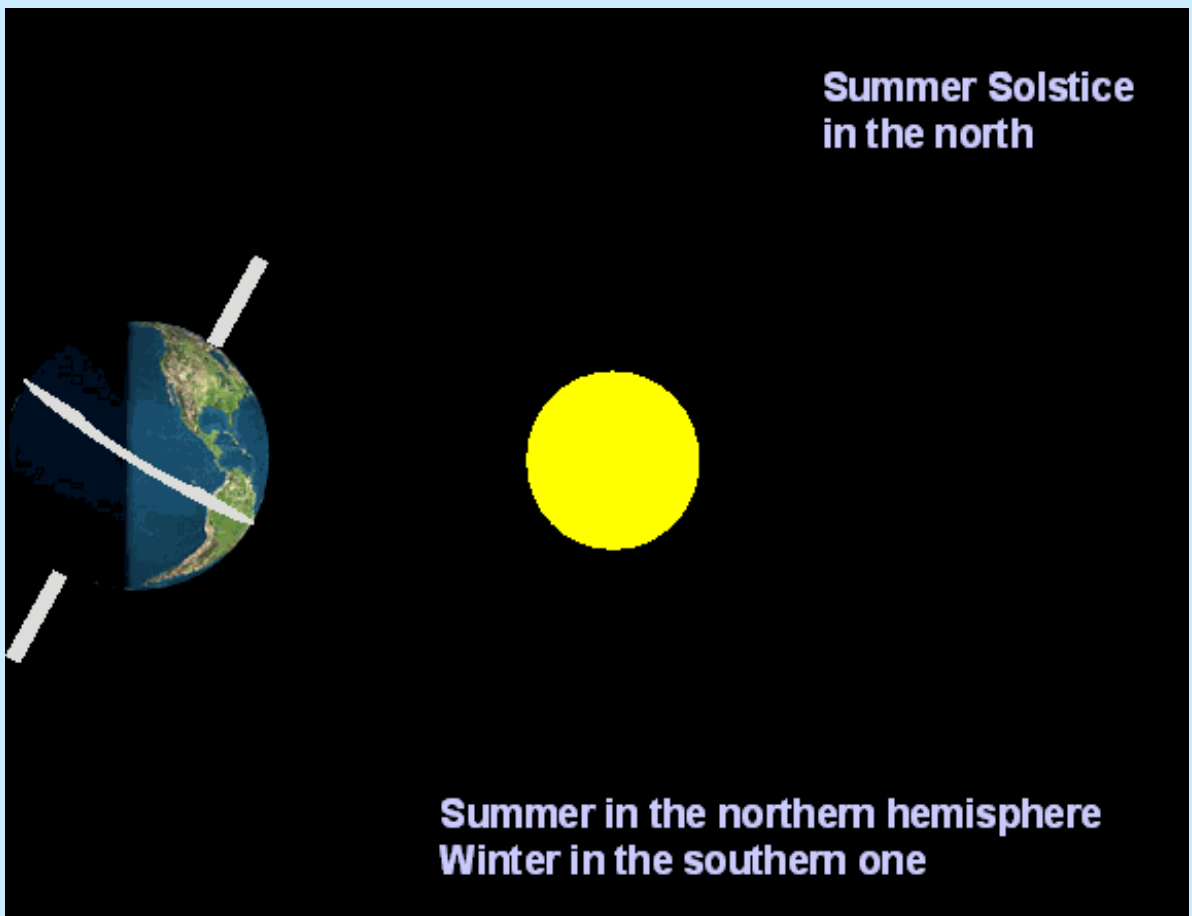
**“Deficit” should mean
income less than
expenditure (a flow concept)**

- *Income = taxes, fees, receipts from feds, interest earned on state funds, etc.*
- *Expenditure = state purchases (including wages), grants to other governments, transfers to individuals, debt service on state debt, etc.*
- *Usually, we refer to the “general fund” when we talk of the state budget deficit or surplus.*

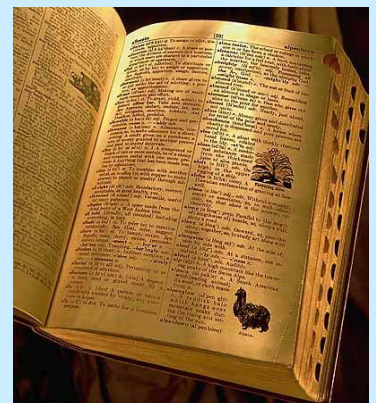
GF = 75-80% of total budget



**“Deficit” should mean
income less than
expenditure...**



...during one year



Sin #1



The term deficit in California-speak is often a confusing multiyear mix of stock and flow

- **Past accumulated deficits in general fund (stock) plus**
- **Estimated current year's deficit (flow) plus**
- **Next year's deficit if we don't do anything (flow)**



\$42 billion!



\$42 billion!



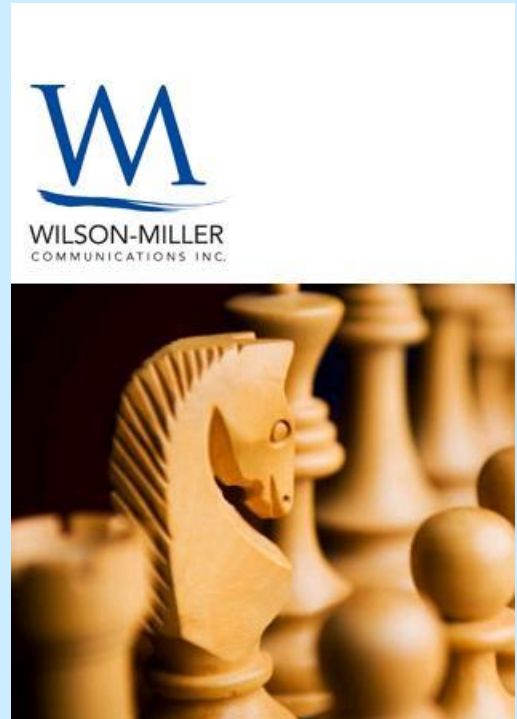


\$42 billion!



Relative to \$100 billion budget?
NO!!

Julie Soderlund, spokesperson for governor and campaign for May 19, 2009 propositions



Budget Reform Now
Yes On Props 1A-1B-1C-1D-1E-1F

**Larry Mantle, Airtalk,
KPCC 3/12/09**

Sin #2



Moreover, borrowing and sales of assets are treated as revenue, often under the heading “revenue and transfers”

Sin #3



Terms such as “shortfall,” “gap,” and “hole” - which have no definition at all - are often used to describe the budget, both by officials and the news media



Short Fall?

Long Fall?





Short Fall?

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California | Local

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[Politics](#)

[Environment](#)

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[Traffic](#)

[O.C.](#)

You are here: [LAT Home](#) > [California](#) | Local

California/Local

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Paul Sakuma, Associated Press

California budget faces new \$8-billion shortfall

Plunging revenue has already put the new budget plan out of balance, the state legislative analyst says. The news may complicate the bid to have voters OK special-election measures in May.

By Jordan Rau and Evan Halper
March 14, 2009

Reporting from Sacramento -- The plan that Gov. Arnold Schwarzenegger and





CapitolAlert

THE LATEST ON CALIFORNIA POLITICS AND GOVERNMENT

March 13, 2009

Leaders react to latest budget gap

The legislative leaders who labored for weeks trying to find a way to patch the \$40 billion budget gap closed last month were quick to react today to LAO projections of a new \$8 billion hole.

Senate leader Darrell Steinberg even extended a special invitation to GOP gubernatorial hopefuls Steve Poizner and [Meg Whitman](#), who have been critical of the February budget deal.

Assembly Speaker Karen Bass, D-Los Angeles

"Given the nation's continuing economic problems since we passed the budget, it is not surprising to see the state's revenue projections continue to fall. We must keep a careful watch on revenues during these volatile times, and all of us, Democrats and Republicans alike, must be prepared to continue to make tough decisions should the May Budget Revision also show significant declines in revenue. We also have to keep in our minds the potential that if the [ballot measures](#) fail on May 19th, the budget problem grows by another \$6 billion."

Assembly Republican Leader Mike Villines, R-Clovis



Holes





Holes

The Sacramento Bee CapitolAlert



PM Alert: Another \$8 billion hole

In case you missed it today: The Legislature's budget analyst, **Mac Taylor**, declared today that the **immense package of spending cuts, new taxes and loans** aimed at closing the state's \$40 billion budget deficit will **fall short by \$8 billion** because the state's economy is continuing to falter.

The **legislative leaders who labored for weeks** trying to find a way to patch the \$40 billion budget gap were quick to react today to LAO projections of a new \$8 billion hole.

When it comes to **protecting children's interests, nobody scores 100 percent** in the California Legislature, according to the San Diego-based Children's Advocacy Institute.



AP Photo/David J. Phillip



Shortfall, gap, hole?

THE SACRAMENTO BEE sacbee.com **Capitol Alert**

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State Politics | State News | Furloughs | Prop 8 | Arnold | **Capitol Alert** | State Workers | Delta | Sierra | Blogs/Columni

Friday, March 13, 2009 **SEARCH**

 **CapitolAlert**

THE LATEST ON CALIFORNIA POLITICS AND GOVERNMENT

March 13, 2009

Budget analyst sees new \$8 billion deficit

The Legislature's budget analyst, Mac Taylor, declared today that the immense package of spending cuts, new taxes and loans aimed at closing the state's \$46 billion budget deficit will fall short by \$8 billion because the state's economy is continuing to falter.

Deficit?

Leg Analyst Uses “Surplus” and “Deficit” as a Stock in Media Conference of 3/13/09

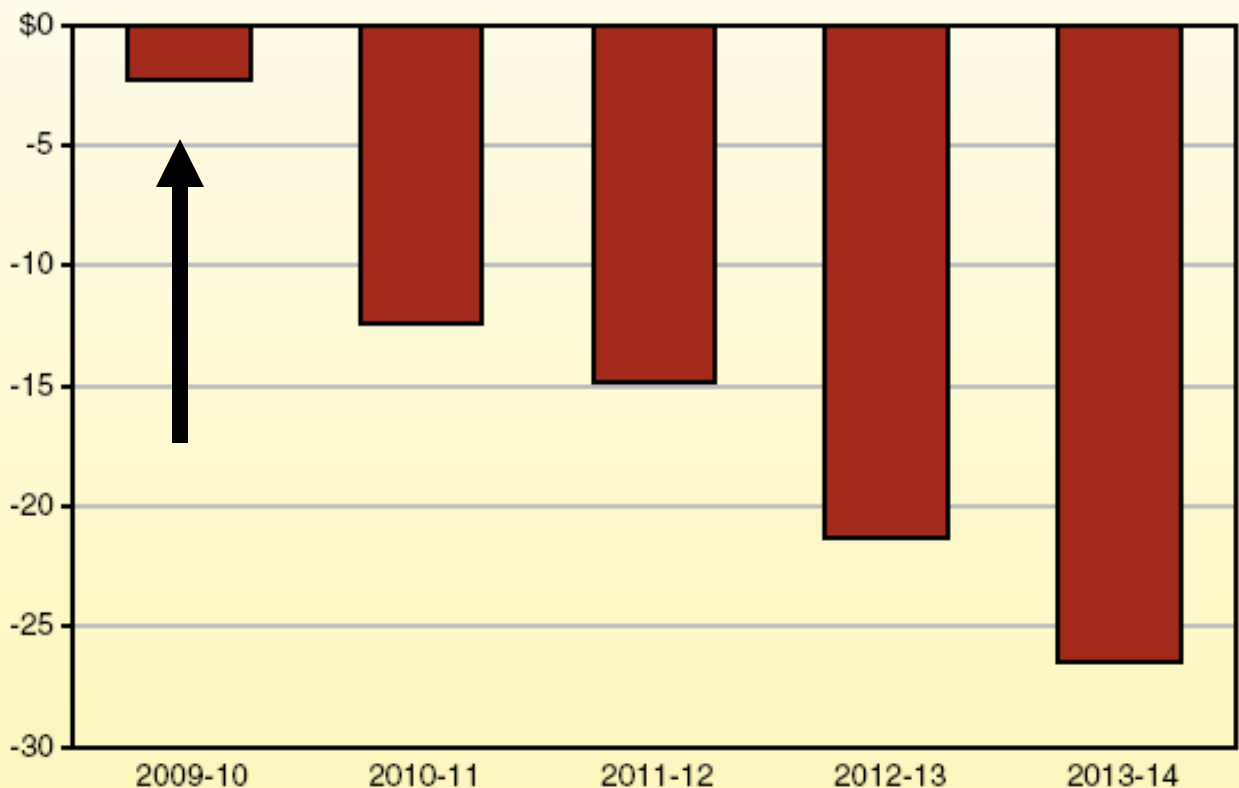


**He is talking about the projected
reserve (stock concept) in the GF
as of 6/30/10**

His chart for that media conference shows a (flow) deficit of -\$2.5 billion for FY 2009-10...

Operating Shortfalls Projected to Grow Dramatically Throughout Forecast Period

General Fund (In Billions)



...but calls it a “shortfall.”

CALIFORNIA STATEWIDE

SPECIAL ELECTION

TUESDAY, MAY 19, 2009

★ OFFICIAL VOTER INFORMATION GUIDE ★

Certificate of Correctness

I, Debra Bowen, Secretary of State of the State of California, do hereby certify that the measures included herein will be submitted to the electors of the State of California at the Statewide Special Election to be held throughout the State on May 19, 2009, and that this guide has been correctly prepared in accordance with the law. Witness my hand and the Great Seal of the State in Sacramento, California, on this 18th day of March, 2009.

Debra Bowen



Debra Bowen
Secretary of State

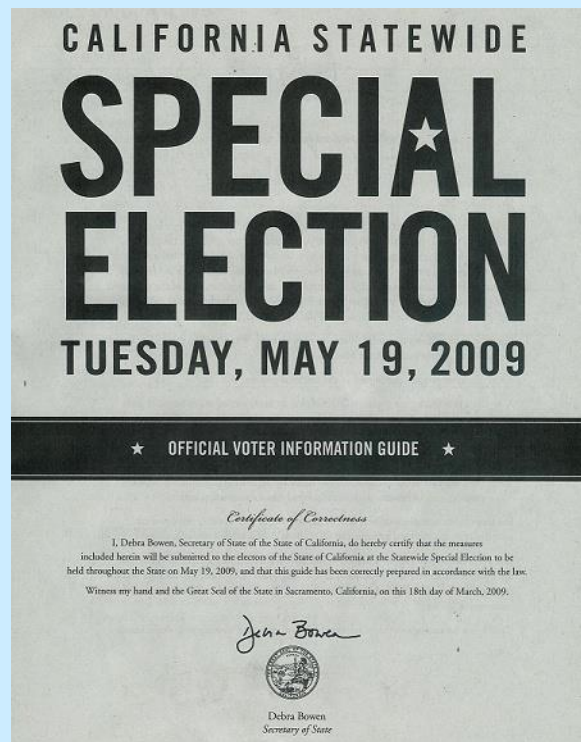


May 19 Special Election

From Prop 1A:

*Sec. 21(d)(1):
The General
Fund revenues
for the current
fiscal year shall
be forecast by
extrapolating
from the trend
line derived by a
linear regression
of General Fund
revenues as a
function of fiscal
year for the
period of the 10
fiscal years.*

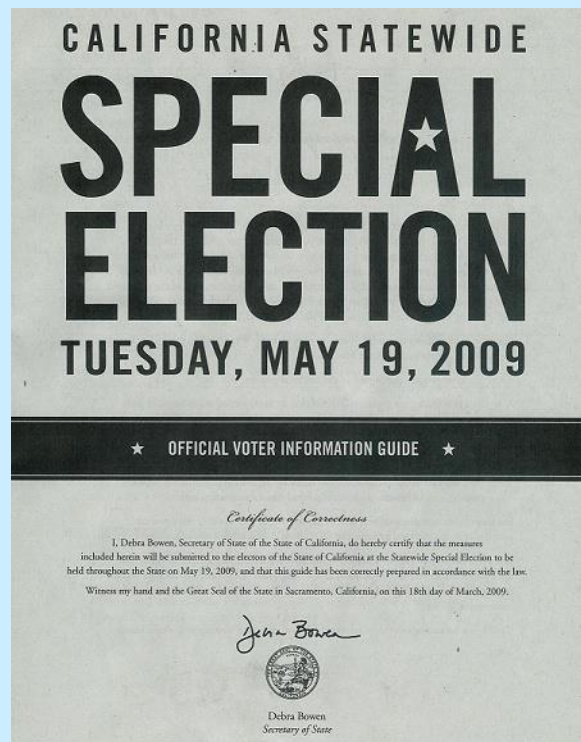
Complicated



May 19 Special Election

- **1D: Protects Children's Services Funding. Helps Balance State Budget.**

Misleading



May 19 Special Election

- **1D: Protects Children's Services Funding. Helps Balance State Budget.**

Misleading



Really the solution?



Groping for a Solution



Rainy Day Fund



Really the solution?



You can only accumulate a rainy day fund when the Sun is shining. What we could have done in the past doesn't fix today's problem.

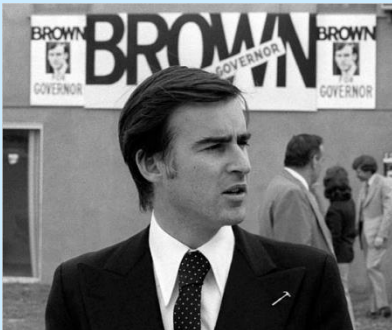
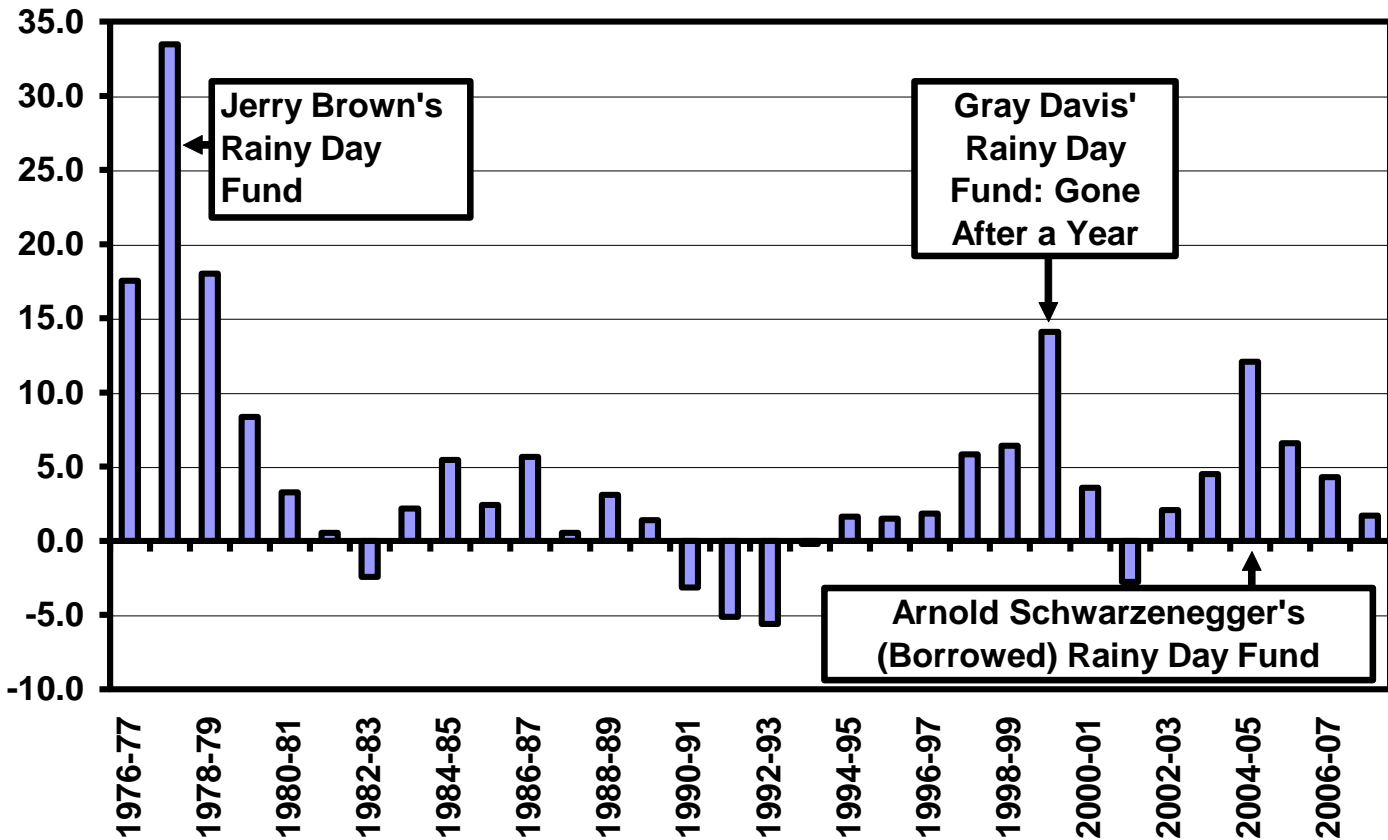
Really the solution?



The rainy day fund the governor would like to have mandated (about 1/8th of the GF) is roughly what Gray Davis had at the dot-com peak.



End of Year GF Reserve as % of Expenditures

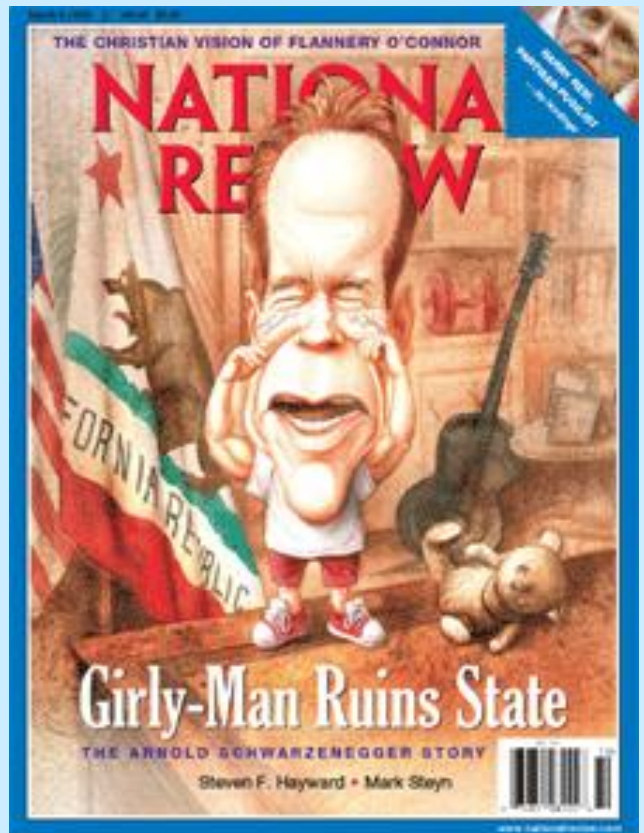




John and Ken: KFI Radio

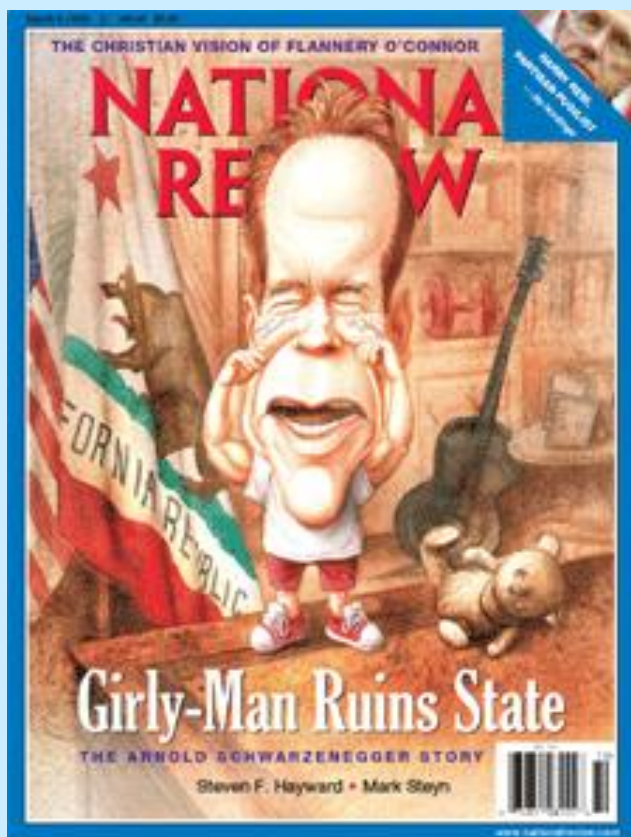


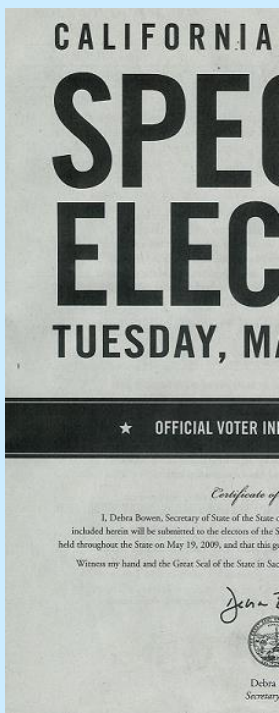
**Revolt
on the
Right**



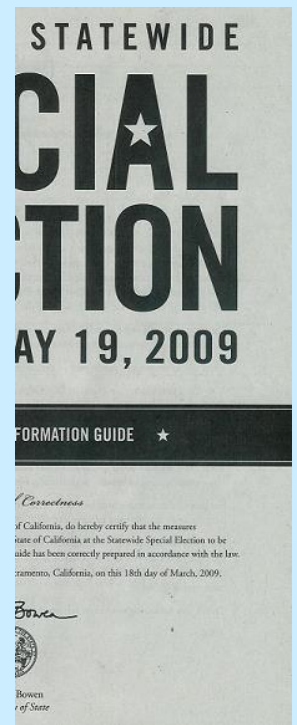


Revolt on the Right





Split on the Left



- CTA: \$2.3 mil for 1a-f
- CTA-NEA: \$13 mil for 1a-b
- Construction unions: \$300,000 for 1a-f
- SEIU: \$1.6 mil for 1c
- CFT: \$520,000 against 1a
- CFA: \$1.2 mil against 1a
- SEIU: \$1.3 mil against 1a
- AFSCME: \$465,000 against 1a

Source: electiontrack.com

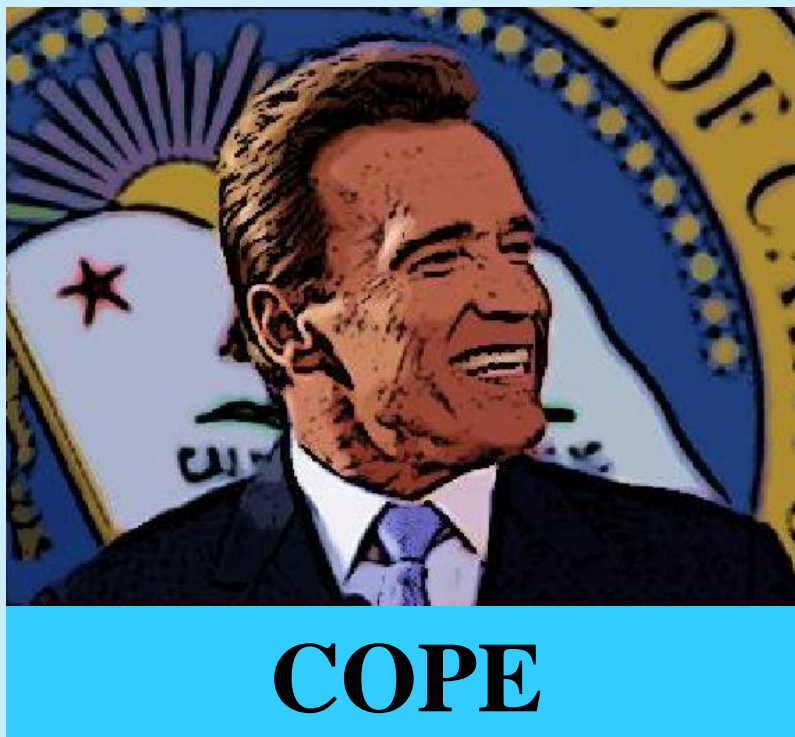


Financial Implication?



Financial Implication?







COPE



HOPE

Pre-Election





COPE



Post-Election





COPE



HOPE

Post-Election





COPE



Post-Election





COPE



Why the change?





COPE



HOPE

Stimulus Funds for California





COPE



HOPE

WEDNESDAY, MAY 20, 2009

Los Angeles Times

CHUCKER KIRK
The old graves and the new hurt

Los Angeles Times
CHUCKER KIRK
The old graves and the new hurt

Los Angeles Times
CHUCKER KIRK
The old graves and the new hurt

Voters kill budget measures

Only salary curbs survive in rout of governor's reform slate



GOV. ARLEN SPECTER'S BUDGET MEASURES WERE REJECTED BY VOTERS.

Los Angeles Times
CHUCKER KIRK
The old graves and the new hurt

Senate votes to rein in credit card interest hikes

Los Angeles Times
CHUCKER KIRK
The old graves and the new hurt

As fossils go, she's a celebrity

Los Angeles Times
CHUCKER KIRK
The old graves and the new hurt

Enidions deal nearly stalled in the finish

Los Angeles Times
CHUCKER KIRK
The old graves and the new hurt

THURSDAY, MAY 21, 2009

Los Angeles Times

State braces for brutal cuts

Governor sees a voter mandate for his plan to slash billions

\$21.3 BILLION
New Gov. Perry's budget deficit that must be closed

\$15 BILLION
Minimum the state must borrow even if it closes the deficit

5,000 jobs may be lost
\$5 billion in new tax revenue
19,000 jobs may be lost

All smoke and mirrors

State budget unveiled, but no real plan to cut costs

Los Angeles Times
CHUCKER KIRK
The old graves and the new hurt

A children's hell in Ireland

Los Angeles Times
CHUCKER KIRK
The old graves and the new hurt

Los Angeles Times
CHUCKER KIRK
The old graves and the new hurt

A plea to feds: RACK US UP

Los Angeles Times
CHUCKER KIRK
The old graves and the new hurt

Obama still on course to close Guantanamo

Los Angeles Times
CHUCKER KIRK
The old graves and the new hurt

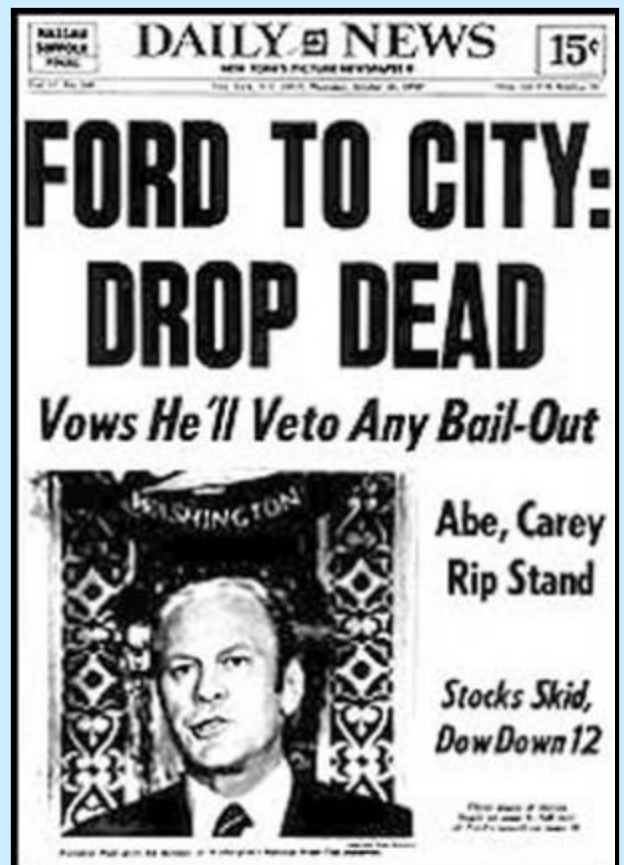




COPE



**Federal
bailout for
California?**
*Will it be
“Obama to
California:
Drop Dead”?*





COPE



**Federal
bailout for
California?**
*Will it be
“Obama to
California:
Drop Dead”?*

Politics:

55 Electoral votes

2 Democratic senators

Speaker of the House

Private bailouts

**Guarantee of auto
warranties**



COPE



**Federal
bailout for
California?**
*Will it be
“Obama to
California:
Drop Dead”?*

Economics:

1/8th of US economy

**Above-average
unemployment**

Loss of health coverage

Impact on schools

Muni bond market



COPE



**Federal
bailout for
California?**
*Will it be
“Obama to
California:
Drop Dead”?*

**Feds are already
involved:**

Stimulus funding:
*Maintenance of effort
rules (IHSS /SEIU flap
on wages)*

Medi-Cal waiver



COPE



**Federal
bailout for
California?**
*Will it be
“Obama to
California:
Drop Dead”?*





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What's the catch?

Less social welfare



**But also *de facto* bargaining with the feds.
Do they really want sick poor kids with
no health care? Mass release of criminal
prisoners? Etc.**



More fiscal prudence

A silhouette of a person standing on the right side of the frame, holding a camera up to their eye as if taking a photograph. The background is a gradient of blue and orange, suggesting a sunset or sunrise. The person is wearing a long coat or jacket.

Longer-term solutions currently floating around

- **Constitutional convention?**
- **Drop or lower 2/3 rules on budgets and/or taxes?**
- **Revise Prop 13?**
- **Constrain direct democracy?**
- **Non-partisan elections for legislature? (On 2010 ballot.)**

Mitchell's Modest Proposal



“Henceforth, if the Legislature has not enacted a budget by July 1 of any fiscal year, the governor's May revise is the budget until some other plan is enacted.”

Source: LA Times Dust-Up #3, May 22, 2009

California's Budget Crisis



Daniel J.B. Mitchell

May 28, 2009

LA Chamber of Commerce